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Beleaguered Berlin

West Zone Fears Reds Will Prolong Crisis, Strangle Its Economy

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Uncertainty Could Cut Vital West German Trade, Bring Slump, Fresh U.S. Aid

Impact on the City's Morale

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BERLIN—The Berlin crisis, which will confront the West for months to come, is a great deal like an iceberg.

There's world-wide alarm over the part that's visible: The threat of war if Russia forces a military showdown in its efforts to oust U.S., French and British troops from West Berlin.

But the greater danger to West Berlin may well lie below the surface: Merely by permitting the crisis to drag on, the Reds raise for the beleaguered city the very real threat of economic collapse.

West Berliners and Allied officials here find little consolation in Nikita Khrushchev's promise that for the next six months he does not plan to force a Berlin showdown. They fear the Soviet premier's proposals for new Berlin talks—and the warning of a new blockade if the talks fail—may be part of a calculated psychological effort to undermine West Berlin's none-too-sturdy economy.

Playing on Doubts

"They're going to try to nibble us to death," warns West Berlin's blunt-talking Socialist mayor, 44-year-old Willy Brandt. His big worry, shared by many a Berlin businessman and Western authority here, is that the Russians, simply by playing on already-gnawing doubts about the city's ultimate fate, will weaken one of its major economic props: The readiness of outside businessmen, mostly West Germans, to invest in and buy goods from this city 110 miles inside Communist East Germany.

[President Eisenhower talked over the Berlin situation yesterday with U.S. Secretary of State Dulles, and served notice the U.S. won't bow to Soviet demands for withdrawal of Allied forces from West Berlin. See story on Page 3.]

"West Berlin is a huge industrial center and we've got to have capital to keep going," says an official at City Hall, a great, gray building on Martin-Lutherstrasse. "But what would you do if you were a responsible factory manager in Frankfurt and you needed a machine which took six or nine months to deliver? You might have a sentimental attachment to Berlin and really want to place the order there, but you also have an obligation to your stockholders and so the order goes to Dusseldorf."

Drop by at a businessmen's lunch and you hear the same sort of talk. "Our friends in West Germany can save us or ruin us, depending on whether they continue to do business here," intones a heavy-set sales agent for a Berlin manufacturer of electrical equipment.

An Artificial Economy

A close look at West Berlin's largely artificial economy helps explain this concern. Once completely dependent on foreign aid, West Berlin's spectacular development even now leans heavily on U.S. aid and subsidies from the West German government. The U.S. has poured some \$600 million of aid into the city over the past decade. "There's hardly an important big project here that we haven't put some money into," says an American official.

Foreign assistance has been dwindling, however, and West German and other investors have become more important. Private investors now account for 93% of all new capital coming into West Berlin, compared with 69% in 1950. As for Berlin's trade, some 62% of its goods, largely manufactured items, are sold to the West German Federal Republic, while 60% of its imports, largely raw materials, come from there. Thus the frame of mind of West German bankers and businessmen, as one Allied expert puts it, "determines the level of activity here."

Economic stagnation here would dim the glitter of what amounts to a capitalist showcase for the West, deep in the heart of one of Russia's satellites. It almost certainly would produce a quick effort by West Germany—and quite probably by the U.S.—to prop up Berlin again with more money. Ultimately, however, it might also sharpen doubts, already existent in the Allied camp, on whether Berlin's present status can be maintained.

Western concern over Berlin's economy was underscored over the weekend by the announcement of fresh aid to West Berlin from West Germany. The Bonn government pledged an extra \$100 million to Berlin next year from a pool of money generated by earlier American aid to West Germany. The West Germans also promised to keep right on placing government contracts with Berlin business firms and awarded more than \$50,000 to West Berlin to promote tourism. All these moves, of course, are designed as gestures of confidence, to counteract the Russian scare talk.

The Question of Morale

The job of maintaining Berlin at something like its present economic level would be vastly more expensive than the aid efforts of the early postwar period, when the immediate worry of many Berliners was little more than subsistence. And there's some question as to how the morale of the West Berliners, who have grown accustomed to prosperity, would stand up under high unemployment and a return to the dole. A decline in morale could weaken West Berlin's sturdy stand against political ties to East Germany.

If all this sounds iffy, few Berliners doubt that this is nonetheless a key part of the Russian game. The latest Berlin power play by the Kremlin had other aims, officials here concede. The hope of splitting the North Atlantic Treaty Organization, an effort to lure the West into a meaningless summit meeting, a desire to forestall West Germany's nuclear armament, a yearning to kick Allied troops out of Berlin and West Germany and to coax West Germany out of N.A.T.O. with the lure of reunification—all these doubtless figured in Soviet planning, just

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as larger motives figured in the 1948 Berlin blockade.

But the 1948 affair only provoked the West to fight back with a massive airlift and rallied the citizens of Berlin. Most observers here think a new blockade, much feared 10 days ago, might well have rallied the sturdy citizens of this city again. The latest Soviet note and comments suggest that the Soviets may share this view and are planning a subtler psychological siege.

What's subtle about this strategy is that it's aimed at the hard-headed West German businessmen as well as the people of West Berlin. To understand it, consider first that even now, officials here insist, there's a goodly measure of patriotism as well as practicality in the heavy investing being carried on here by firms in the Federal German Republic.

One report has it that West German banks stepped in with cash to halt the slide of stocks of Berlin-based firms in which some shares plummeted as much as 40%. And the West German Industry and Trade Congress, after the Kremlin opened its new offensive, urged its members in a circular letter to keep supporting West Berlin.

A Soviet proposal to make West Berlin a demilitarized, neutralized "free" city, though almost sure to be rejected by the West, at least plants another seed of doubt about the city's future. If the idea caught on, the West German dream of a reunified Germany with Berlin as its capital would be dashed and a major motive for businessmen to help West Berlin's economy would be removed. The statement by Secretary of State Dulles that the U.S. might deal with East German guards, if the Soviets turn over frontier inspection of Allied supply movements to the East Zone puppet regime, already has shaken the confidence of people here and in West Germany in just how resolute the Americans are prepared to be.

Beating the Drum

Though the free-city proposal is likely to find little favor in the West, the Russians probably will go on beating the propaganda drum for it—while never failing to remind this city and West Germany that a new blockade menace may arise in six months' time. As the deadline approaches, tension over Berlin hardly can fail to mount again, however much it may have been eased for the moment.

After six months are up, the Kremlin either could stall around in a menacing way or make good on its promise to hand over control of Allied military supply lines and troop movements to the East Germans; East Germany already controls all civilian traffic to and from West Berlin. This would open the door to a host of possible tension-raising incidents.

If West German businessmen take fright and this boom town slows down, the Berliners themselves may tire of the struggle, some Western officials here believe. Though they stood fast in the 1948 crisis, says one Allied veteran of that siege, "this time they're prosperous and thus have a lot more to lose." While most Berliners have roots too deep to pull up, some might well leave. "I came here to make money," says one young businessman. "If things go sour, I will simply pack my bag and go to Australia or Canada."

Adds a Frenchman long on the local scene: "There's not the same spirit here that there was in 1948. I see considerable sentiment beneath the

with the East Germans and end all this uncertainty."

A key uncertainty, of course, is just what type of crisis West Berlin will face if Russia hands over to East Germany control of West Berlin military traffic. At worst, of course, the East Germans might try to deny Allied garrisons here access to the West; the Allies have said they'd fight to prevent this, rather than quit Berlin. What if the Reds restrict themselves to harassing, but not blocking, Allied military traffic to and from the city? Civilian traffic need not be affected. But difficulties with Allied military authorities over supplying their West Berlin garrisons could spread, leading to harassment of civilian traffic flow, too. If civilian traffic should be completely cut off—a development now regarded as unlikely—only a vast and costly airlift could prevent Berlin's living standards from slipping back to an austerity level.

A glance at the figures shows why. Today Berlin gobbles up 7 million tons of raw materials, food and manufactured goods a year, more than 99% of it brought in by truck, rail and barge. But the massive 11-month Allied airlift that ended in May, 1949, was only able to bring 2.3 million tons of essential foodstuffs, medical supplies and coal.

At first glance, Berlin looks hardy enough to withstand plenty of economic pressure. While Mr. Khrushchev was penning notes to the Western Allies, local representatives of hotelman Conrad Hilton were inscribing invitations to the gala opening of the plush new checkerboard-facade Berlin Hilton on fashionable Budapest Strasse. While the Kremlin was considering whether to turn over Berlin's military lifelines to East Germany, local officials were cutting the ribbon on the first 1½-mile section of Berlin's new six-lane Inner Loop Expressway. At the height of last week's crisis, officials of the Benjamin Franklin Foundation, a private American group, were calmly studying blueprints of a new \$13 million medical center for West Berlin's Free University, to be financed partly by local funds and partly by U.S. aid. And Germany's mammoth Siemens Electrical Co. announced it will go ahead with a \$9 million addition to its sprawling plants here.

Autos and Apartments

A sign of prosperity is the 90,000 automobiles which choke West Berlin's boulevards. Equally spectacular are the gleaming shafts of modernistic apartment and office buildings rising all over town. As eye-catching as any is the U.S.-financed Congress Hall, a radically designed convention headquarters shaped like a grounded flying saucer and erected within sight of the bleak Soviet sector.

Statistics tell an equally impressive story. West Berlin's index of industrial output, while down a seasonal three percentage points in October, from the previous month, still stood at 128, based on prewar 1938 as 100. Back in 1950, output limped along at a meager 32% of the prewar rate. The city has put up 20,000 new dwellings each year for the past several years, compared with only 5,000 in 1950 and hopes to lick its housing shortage by 1963.

But against these plusses for West Berlin must be placed a number of rather significant minus factors, most of them stemming from its artificial position. Cut off from its rural hinterland, it has not only lost its handiest source of fresh farm produce but is denied a natural market nearby for its manufactured wares. It also has lost the myriad functions

70 million. Many of its 60,000 unemployed are ex-bureaucrats and former workers in the dozens of import-export and foreign banking establishments which have moved to Hamburg and Bremen.

Some Industries Lag

Because of Berlin's distance from raw material sources, all but 3% of its imports come from the West—many classes of industry formerly rooted here have never regained their prewar importance. Furniture production, for example, hasn't made a comeback because wood must come from distant sources. The city's printing and barge construction industries have also failed to regain their former positions.

Other industries, to be sure, have partly replaced these losses. Local leaders proudly note that West Berlin's clothing and cigaret industries are largely postwar developments. But possibilities for luring new concerns are severely limited, these same officials concede. Moreover, they add, most postwar private investment in Berlin has been for expansion of facilities long located here. Only a relatively small number of firms have started from scratch.

Such private funds as have poured into the

city, local business leaders readily admit, have had to be lured by a whole package of special incentives such as lower taxes and low interest-rate loans for firms that expand their operations here.

The West German government in Bonn foots the bill for many of these incentives and also persuades hesitant firms to maintain their operations here to demonstrate their patriotism.